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Taiwan

Grain and Feed

Pain Allocation – Taiwan Adjusts to High World Grain Prices

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Report Highlights:

Reacting to high global grain prices, Taiwan pork producers are attempting to import corn from China and have engineered a halt to U.S. pork imports. The baking industry is also investigating the substitution of rice for wheat flour. While feed millers and hog farmers are planning to import corn from China, trade flows will likely be determined partly by cross-strait politics and partly by the cost of freight.

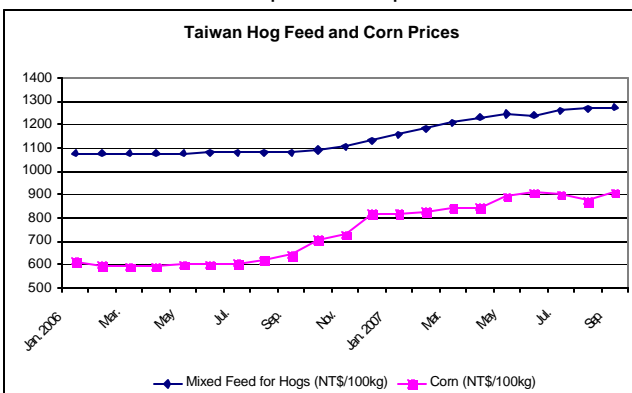
Includes PSD Changes: No
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Summary

Reacting to high global grain prices, Taiwan pork producers are attempting to import corn from China and have engineered a halt to U.S. pork imports. The baking industry is also investigating the substitution of rice for wheat flour. Last spring Taiwan pork producers also attempted to bring corn from China, but did not succeed. The U.S. supply picture is about the same to a little looser than it was last year at this time, and the PRC's supply picture seems to be somewhat tighter than it was last year. Whether trade will flow mostly depends on the relative cost of freight between Taiwan and the U.S. and Taiwan and China, and the ability of Taiwan to get export quota from China. The latter is a political decision that would need to be taken by Beijing, as China is believed to be approaching the point where it will need to import significant quantities of corn. While small amounts of PRC corn have been imported by Taiwan in the past, traders report that those shipments were of very uneven quality. In addition to working to lower input costs, pork farmers have also restricted trade. Their efforts to block establishment of a residue standard for ractopamine, a widely used feed additive approved in the U.S. and most major pork import markets, has virtually stopped U.S. pork exports to Taiwan.

Corn- Pork Industry Seeks Alternative Supply from PRC

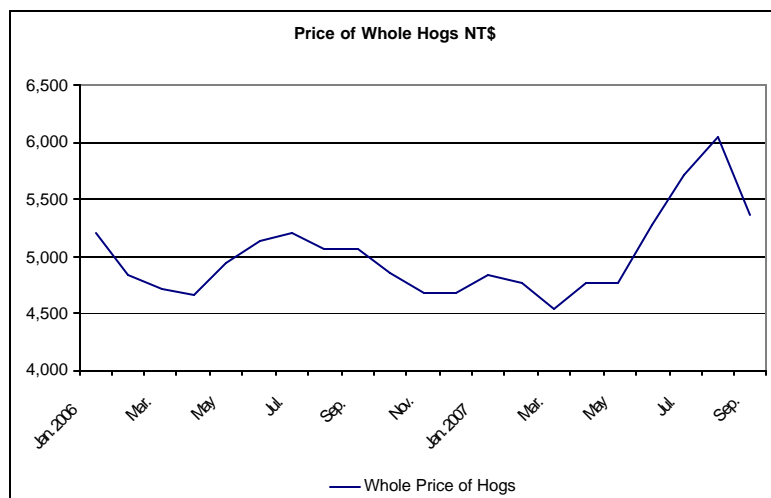
Taiwan temporarily opened its market to PRC corn from October 1 until March 31, 2008 due mainly to concerns about a possible shortfall of corn, and China's geographic proximity with its advantages of shorter delivery times and lower shipping costs. Taiwan feed millers have indicated that they intend to import 370,000 metric tons of PRC corn according to the Taiwan Feed Industry Association (TFIA). Hog farmers are also planning to import PRC corn to secure corn supply for farm mixed feed. Potential importers are now waiting for an export quota for the shipment of PRC corn to Taiwan. The allocation of such a quota does not mean that it would be cheaper to import Chinese corn than U.S. corn.



While the industry is anticipating a shortfall of feed grain in February 2008, due mainly to hesitation to import and delays of containerized shipments, it is important to note that the shipping time from Portland, Oregon to Taiwan is less than a month. Taiwan feed millers have been hesitant to import corn as prices have been rising. Moreover, ocean freight prices have been surging in recent months,

causing Taiwan feed millers to use more containers to import grains. However delays of grain container shipments are often beyond the control of grain suppliers and importers, adding another complication to the domestic feed market.

The real reason for the angst of the feed millers and pork producers is low margins. Local feed millers claim that they not only face high grain prices, but slim margins of 10 percent that they can barely survive on. The situation is such that the TFIA has urged Taiwan authorities to establish a stabilization fund for the domestic feed market.



One of the reasons for the low margins of feed millers is high grain prices, the other is the condition of one of their primary customers – hog farmers. The farmers note that their margins are being squeezed by low local meat prices and high feed prices. That is apparently only half true. Pork prices are relatively strong at the moment and are likely to get stronger if producers leave the industry. Corn and feed prices are high however and pigs eat like

(Note on corn, feed and hog prices: Domestic prices of imported feed corn stayed around NT\$6/kg in the first seven months of 2006 and then increased to a range between NT\$7/kg and NT\$9/kg during the period of August 2006/September 2007 and it surged to NT\$10.55/kg on October 29. As for feed prices, taking commercial feed for 30-60 kg hog as an example, it was priced below NT\$11/kg when corn was priced below NT\$7/kg and surged above NT\$12 when corn prices exceeded NT\$9/kg. Hog market prices dropped below NT\$5,000 per hundred head during the period of October 2006-May 2007 that corn prices spiked, but have recently been stronger.)

Wheat- Bakery sector looking for alternative raw material from rice

Wheat flour prices have been brought up in the media coverage several times this year. It is anticipated that wheat flour prices will be raised again in November and January 2008. These increases will reflect a wheat import price of around \$500/mt for November/January delivery, compared to \$262/mt C&F of the first wheat shipment delivered to Taiwan in January and \$355.88/mt of a shipment that arrived on October 25th.

The Council of Agriculture's Agriculture and Food Agency (COA/AFA) has contracted out a research project with the China Grain Products Research and Development Institute (CGPRDI) on rice flour as a substitute for wheat flour in bakery products. The research result indicates that rice flour could replace 30 percent of wheat flour in breads and could use up to 100 percent in cake formula. The research results will be transferred for commercial breads and cakes applications this year. There is another research project on rice flour in use of making noodles will be published next year. According to COA's AFA, current domestic rice retail price is approximately NT\$30/kg and it could have price efficiency of flour in substitution for wheat flour when domestic flour price increases to the same price level of rice from the current NT\$23/kg.

According to the Taiwan Noodle Manufacturers' Association, there are approximately 2,000 noodle manufacturers, of which 90 percent are in small scaled business. To date in 2007, wheat flour prices were adjusted five times and moved up 80 percent to NT\$500 per 22-bag from approximately NT\$300. Flour cost accounts for 30 to 35 percent of noodle production cost. As flour prices are anticipated to increase further along with other raw materials, such as soy oil, starch and plastic bags, and prices of consumer-ready wheat food products could not absorb increased flour and other raw material costs at a hundred percent. There may be some small scale noodle manufacturers that cannot survive the high wheat flour prices. The same situation applies to the bakery sector. Reportedly, 300 family owned bakery shops closed down their business and disappeared in Taipei in recent months. These bakery shops were less competitive than bakery chains.